



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2011 Biennium

Bill #	HB0012	Title:	Require employer contributions on working retirees under certain conditions
Primary Sponsor:	Wilmer, Franke	Status:	As Amended in House Committee

Retirement Systems Affected:

<input type="checkbox"/> Teachers	<input checked="" type="checkbox"/> Public Employees	<input type="checkbox"/> Highway Patrol	<input type="checkbox"/> Police
<input checked="" type="checkbox"/> Sheriffs	<input checked="" type="checkbox"/> Firefighters	<input type="checkbox"/> Volunteer Firefighters	<input type="checkbox"/> Game Wardens
		<input type="checkbox"/> Judges	

Check the box if "Yes".

- ☒ Has this legislation been reviewed by the legislative interim committee?
- ☒ Has the cost of this legislation been calculated by the system's actuary?
- ☐ Does this legislation include full funding for any benefit revisions?

PERS	July 1, 2008 Current System	July 1, 2008 With Changes	Increase/ (Decrease)
Present Value of Actuarial Liability	\$0	\$0	\$0
Present Value of Actuarial Assets	\$0	\$0	\$0
Present Value of Increased Costs	\$0	\$0	\$0
Actuarial Accrued Liability (AAL) Unfunded/(Funded)	\$0	\$0	\$0
Amortization Period of AAL	24.8	24.6	(0.2)

1. The following table provided by the actuary (Milliman) shows the increased contribution from working retirees with the bill.

PERS	Expected Total Contributions for plan year ending June 30,	Increased Contributions with HB 12	Total
2009	142,041,000	0	142,041,000
2010	149,517,000	148,000	149,665,000
2011	155,871,000	155,000	156,026,000
2012	162,496,000	161,000	162,657,000
2013	169,402,000	168,000	169,570,000
2014	176,601,000	286,000	176,887,000

SRS & FURS

2. The impact of requiring employer contributions for the SRS and FURS was not significant enough to alter the funding period, based on the working retirees for the plan year ending June 30, 2008. SRS had two working retirees with 2007-2008 compensation of \$9,844.29, and FURS had one working retiree with 2007-2008 compensation of \$494.

PERS	July 1, 2008	July 1, 2009	July 1, 2010	July 1, 2011	July 1, 2012
Employee Contribution Rate (WR)	0.000%	0.000%	0.000%	0.000%	0.000%
Employer Contribution Rate (State & U	7.035%	7.170%	7.170%	7.170%	7.170%
Employer Contribution Rate (Local Gov	6.935%	7.070%	7.070%	7.070%	7.070%
State Contribution Rate (Local Govt)	0.100%	0.100%	0.100%	0.100%	0.100%
Employer Contribution Rate (SD)	6.800%	6.800%	6.800%	6.800%	6.800%
State Contribution Rate (SD)	0.235%	0.370%	0.370%	0.370%	0.370%
TOTAL Contribution Rate	7.035%	7.170%	7.170%	7.170%	7.170%

SRS	July 1, 2008	July 1, 2009	July 1, 2010	July 1, 2011	July 1, 2012
Employee Contribution Rate	0.000%	0.000%	0.000%	0.000%	0.000%
Employer Contribution Rate	9.825%	10.115%	10.115%	10.115%	10.115%
State Contribution Rate	0.000%	0.000%	0.000%	0.000%	0.000%
TOTAL Contribution Rate	9.825%	10.115%	10.115%	10.115%	10.115%

FURS	July 1, 2008	July 1, 2009	July 1, 2010	July 1, 2011	July 1, 2012
Employee Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Employer Contribution Rate	14.36%	14.36%	14.36%	14.36%	14.36%
State Contribution Rate	32.61%	32.61%	32.61%	32.61%	32.61%
TOTAL Contribution Rate	46.97%	46.97%	46.97%	46.97%	46.97%

FISCAL SUMMARY

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Expenditures:				
Other - PERS Trust	\$0	\$0	\$0	\$0
Revenue:				
Other - PERS Trust	\$148,000	\$155,000	\$161,000	\$168,000
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact:

Each employer shall also pay the required contribution on the compensation of retired members who have returned to covered employment, effective July 1, 2009. Contributions from local governments and school districts are effective July 1, 2013. HB 12 will provide a small amount of additional funding for the applicable retirement systems to offset the adverse affect of retirees returning to work in place of active contributing members.

FISCAL ANALYSIS**Assumptions:**

1. A retire returning to work takes the place of a new member that would otherwise be hired to fill the position where employee and employer contributions would be paid; therefore the state and universities are not paying contributions beyond what is normally budgeted for new hires. The local government and school district employers have a delayed impact to their budgets by not requiring the contributions on working retirees until July 1, 2013.
2. The actuary used the employer number to calculate the total salaries that would be used to calculate the contribution paid for state and university working retirees from 2009 to 2013.
3. The figures reported by the actuary were used to calculate the contributions that would be paid by the employers.
4. Working retirees are employed by employers as follows: local governments employ 31.3%; school districts employ 24.5%; state agencies employ 38.8%; and universities employ 5.4%. When looking at just state and university employers for 2009 to 2013 the percentages are as follows: state agencies 87.8% and universities 12.2%.

	FY 2010	FY 2011	FY 2012	FY 2013
State Government	\$129,894	\$136,037	\$141,303	\$147,447
Universities	\$18,106	\$18,963	\$19,697	\$20,553
Total	\$148,000	\$155,000	\$161,000	\$168,000

5. For FY 2010, the actuary reported additional contributions of \$148,000 multiplied by the appropriate employer rate in assumption number 4 equals the amount reported. $\$129,894 = \$148,000 * 87.8\%$ (percent of retirees employed by the state). The calculation can be repeated in similar fashion for the university.
6. Employee contributions are not required and will not be required for working retirees.
7. The employer does not have to pay contributions for those employees who are otherwise properly excluded.
8. Only PERS, SRS, and FURS allows for working retirees so the other retirement systems administered by the PERB will not be impacted.
9. Current approximate number of working retirees 450 (PERS-446; SRS-2; FURS-1) are reported to MPERA per statute. MPERA assumes there are others that are not being reported.
10. As the baby boomers retire, there will be more working retirees.
11. This is the only statutory amendment being considered. If other provisions are enacted, the actuarial cost impact associated with this amendment may be different.
12. No adjustments have been made for actuarial gains or losses that may have emerged since the last valuation date, June 30, 2008 except as noted in the technical notes.
13. Payouts and amortization periods reflect the additional contributions of 0.27% effective July 1, 2009.

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
<u>Revenues:</u>				
Other - Pensions	\$148,000	\$155,000	\$161,000	\$168,000
TOTAL Revenues	\$148,000	\$155,000	\$161,000	\$168,000
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
Other	\$148,000	\$155,000	\$161,000	\$168,000

Effect on Local Governments:

1. A retiree returning to work takes the place of a new member that would otherwise be hired to fill the position where employee and employer contributions would be paid.
2. There will be a delayed impact to July 1, 2013, to the budgets of local government and school district employers that hire working retirees.

Long-Term Impacts:

1. Local governments and school districts will not be required to contribute on all wages paid to working retirees until July 1, 2013.
2. The state will be required to contribute the state's portion of the employer contribution on all wages paid to working retirees beginning July 1, 2009.
3. The state and universities will be required to contribute on all wages paid to working retirees beginning July 1, 2009.

Technical Notes:

1. Based on the June 30, 2008, market value of assets (instead of actuarial value of assets), the amortization period would be 49.3 years instead of 24.6 years.
2. If the assets were adjusted at June 30, 2008 to reflect the market losses through December 31, 2008, the amortization period would be 53.3 years on an actuarial value of assets basis, and the UAL does not get paid off on a market value of assets basis.
3. MPERA is currently working on a project requiring employers to report all employees, whether members of the retirement system or not. This will help to identify working retirees, optional members or excluded employees that have been incorrectly reported to the retirement system, thus impacting the contributions and funding of the systems.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date